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Working Paper
4 November 1987

Leg

NOTE TO: DDA

FROM: OCA

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SUBJECT: HR 3545-- House Budget Reconciliation Bill

1. The House last week passed the Reconciliation Act which has at least four sections which will affect personnel administration.

2. Section 7001 contains the 3% government pay increase in 1988, 4.8% in 1989, and 5.2% in 1990. Agencies would be required to absorb 65% of the increases as recommended by Post Office and Civil Service Committee.

3. Section 9006 closes the loophole in the government pension offset. Under existing law, a social security spouse's or surviving spouse's benefit is reduced by two-thirds of the amount of any government pension to which the person is entitled. An unintended interaction between the new FERS program and the Social Security Act would permit an individual to escape the pension offset by joining FERS for just one day. Section 9006 imposes the offset to any Federal employee who joins FERS on or after 1 July 1987.

3. Section 9007 removes the 10% penalty tax for those Federal employees who opt to take a lump sum annuity payment at age 50 with 25 years of service. Senate Finance Committee has included a similar provision in its bill.

4. Section 10103 changes the tax law on all organizations who have cafeteria style benefit plans. Under this section only \$500 would not be subject to tax. If this section becomes law, it could seriously hamper our efforts to implement a cafeteria style benefit program.

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